Housing with an Ageing Demographic: International Developments

Christine Whitehead
London School of Economics

Policy Dialogue on Housing and Ageing
Crawford School of Public Policy
Australian National University
19 November 2019

Concentrating on Three Topics

- Affordability
- Mortgage products for the elderly
- Bank of Mum and Dad

1. Overview: A Halcyon Time for the Elderly

- Almost seventy five percent of households of retirement age own their homes outright - up 10% from the beginning of the century;
- The norm for people retiring over the last twenty year is a defined benefit scheme – so those who worked for government or have private pension have risk free index linked income;
- No capital gains tax; some inheritance tax benefits; housing wealth protected in relation to income support;
- Proportion of those in social housing has fallen to 16% - a decline of around 9% from early in the century – but have long term security of tenure (cant be made to move) and up to total rent covered by housing benefit;
- Private renting increasing by from 4.5% to 5.6% so rising but still small;
- Social security for elderly protected from austerity measures;
- So the elderly now better off than many employed working age households.

Age of household reference person, by tenure

	2003-4	2017-18
own outright	65.0	74.2
buying with mortgage	5.9	4.4
all owner occupiers	71.0	78.6
private renters	4.4	5.6
local authority	:	6.3
housing association	:	9.5
all social renters	24.7	15.8
all 65 or over	100.0	100.0

Source: English Housing Survey, 2017/18

But this will not last

- Those over 65 expected to rise by 150,000 pa over next 20 years – 75% of total household growth;
- Owner-occupation has been declining in proportional terms for 1 6 years but more importantly people have had interest only mortgages and many will not have paid off their mortgage at retirement;
- Attempts, so far mainly unsuccessful to get housing wealth to pay for social care;
- More generally, concerns about intergenerational inequality rising
- In private pension terms best on offer is defined contribution benefits;
- Proportion of households in social housing continuing to decline – and security within the sector declining;
- Private tenants have no security and only partially protected from rental costs.
- But older people vote!

2. Why Mortgages for Elderly People?

- Historically the assumption was made that mortgages must be backed not just by the security of the property but also of the main earner's salary. It was therefore the norm to require a secure income base and repayment before retirement.
- Inherently this meant that when owner died they left unencumbered property to their heirs. In an inflationary world much if not all of their wealth might be in their home.
- Changes in life expectation; household income profiles; and the types of mortgage that have become available since liberalisation inherently mean that there is a need and demand to develop products for older households.
- In particular:
  - Retirees may well have a more secure income than they had when in work;
  - Increasing numbers of households have not paid off their mortgage on retirement and therefore need to re-mortgage
  - People may need to realise some of their equity to maintain their standard of living or to support a more expensive lifestyle;
  - They may want to use that equity to help others (notably via the Bank of Mum and Dad to support children buying a home).
  - Others – who may well not be elderly - may wish to borrow against one property in order to invest in further housing assets.

On the Supply and Policy Side

- Owner-occupation is falling in many countries as younger people find it more difficult to enter the market (or indeed may have less interest); on the other hand many owner-occupiers have now paid off their mortgage – indeed in the UK the majority of owner-occupiers no longer have a mortgage – so less demand;
- Mortgage providers are also facing a more difficult lending environment because of additional Europe-wide regulation after the GFC;
- Providers are therefore looking for additional outlets and the elderly were a nearly untapped market – and are finding a ready market among older households;
- The growth of interest only mortgages means that new products are necessary to enable people to re-mortgage at later ages – and indeed to die in debt;
- At least in the UK, the Treasury is increasingly arguing that into the longer term people should expect to pay for their care and other costs from their own equity (although they may not be saying this explicitly);
- This can only be done by downsizing (which is itself usually quite expensive) or by increasing debt while remaining in the existing home.

Mortgage Products for the Elderly

- Two main forms of mortgage and multiple innovations:
  - Re-mortgaging the unencumbered equity in their home – where the mortgagor continues to pay the interest into their retirement and may need to extend or replace the mortgage at intervals. Such mortgages are increasingly available for those in the eighties and nineties if they have a clear source of funds to make the repayments; and
  - Equity release mortgages where the mortgagor obtains a lump sum based on the dwelling price and existing mortgage commitments and does not pay interest on these funds. The loan still has to be repaid with interest - either on demand by the mortgagor or at death. These are regulated to limit the proportion of value that can be released and to ensure that the borrower does not go into negative equity;
  - Other forms of mortgage are being developed particularly to enable the elderly to partner with their children/grandchildren to help pay for the next generation's house purchases.

The popularity of such products

- Equity release mortgage products were first introduced in the UK in the 1970s. However they were the subject of one of the first mis-selling scandals because of their lack of transparency.
- Current versions are also extremely concerning from both sides of the equation. However, they are heavily advertised and appear to be popular with some groups looking for a lump sum.
- On the consumer side there is a lack of understanding about the interest rate charged and about their responsibilities to the property.
- On the supply side there are major concerns about the valuation of the no-negative equity guarantee by which the lender guarantees that the borrower or their estate will never need to pay back more than the value of their house when the loan is repaid.
- As Professor Kevin Dowd notes “we have known how to do these valuations properly since the seminal option pricing work of Black, Scholes and Merton in the 1970s. The problem is that equity release companies are using the wrong approach. The correct approach uses the forward house price in the option pricing formula, but firms are using the expected future house price in the formula instead. This practice has no scientific foundation and constitutes a major error. It also produces large under-valuations in the guarantees”.

European Experience

- Middle aged (post 45) households have had greater debt than younger households in some countries such as Denmark for at least a generation;
- Sweden has had a history of non repayment of capital and long term mortgages which is continuing into old age – although government has now started to require some repayment;
- Relatively little being done to help younger households who cannot obtain a mortgage because of short term employment contracts;
- But generally renting more secure than in the UK or Australia and of better quality.

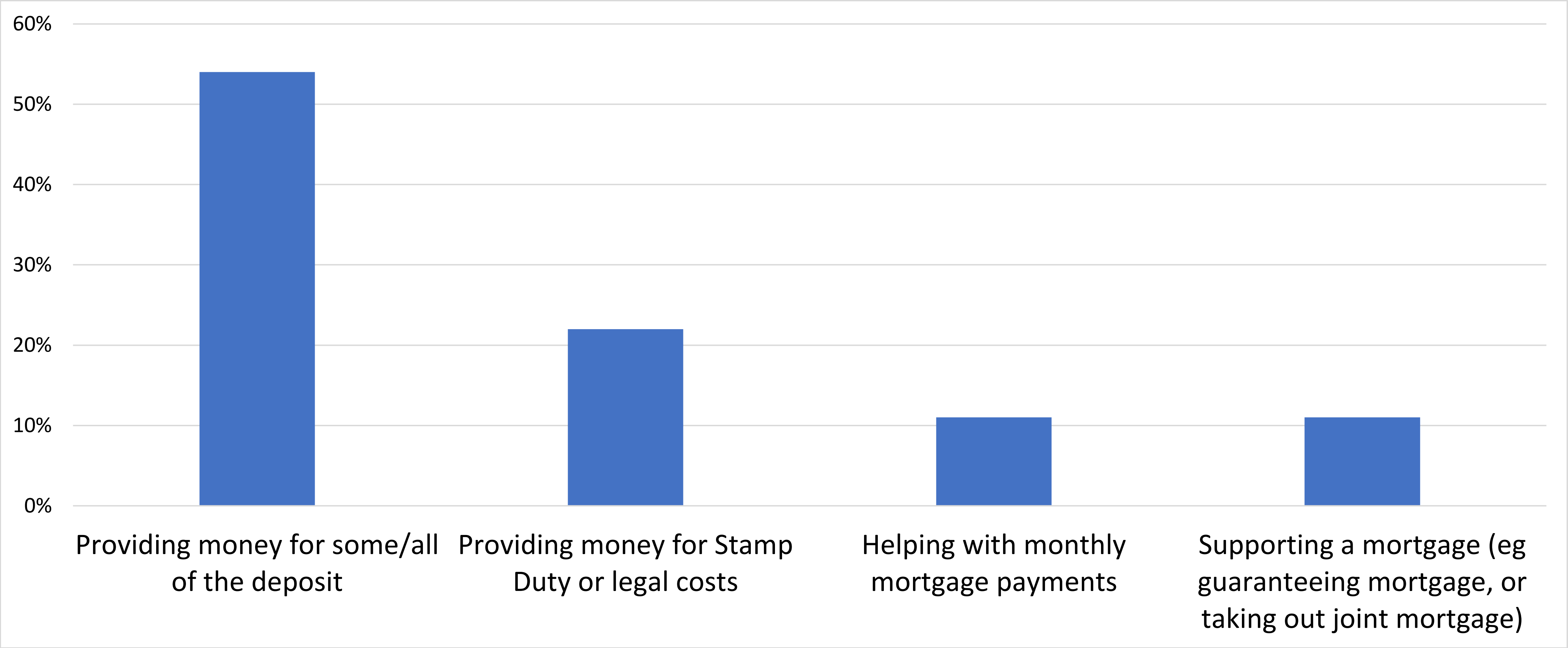
3. Intergenerational transfers – the Bank of Mum and Dad.

- About 1/3 of FTBs have help from friends and family

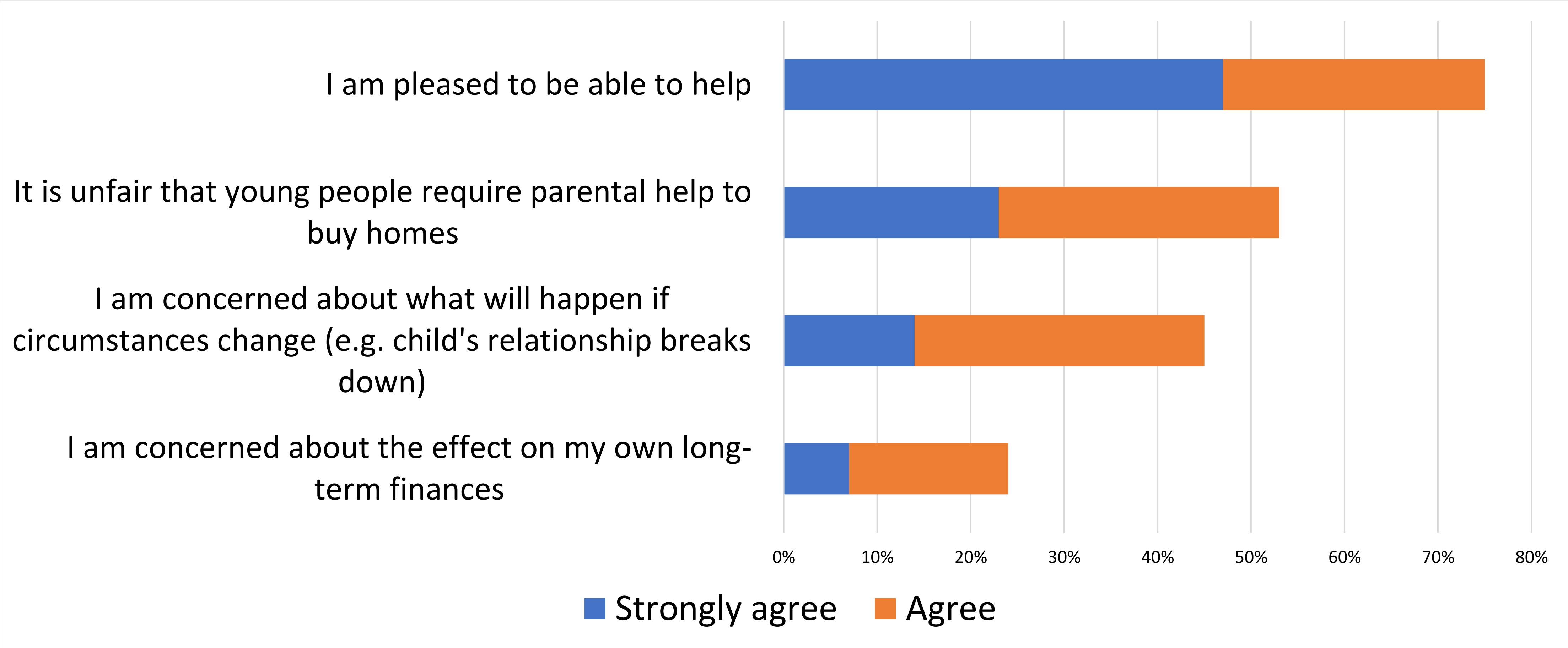
  (29% per EHS 2015/16; 34% per Udagawa & Sanderson 2017)

- Average amounts are significant
  - £22,000 (Legal & General 2017)
  - £24,347 (Post Office 2018)

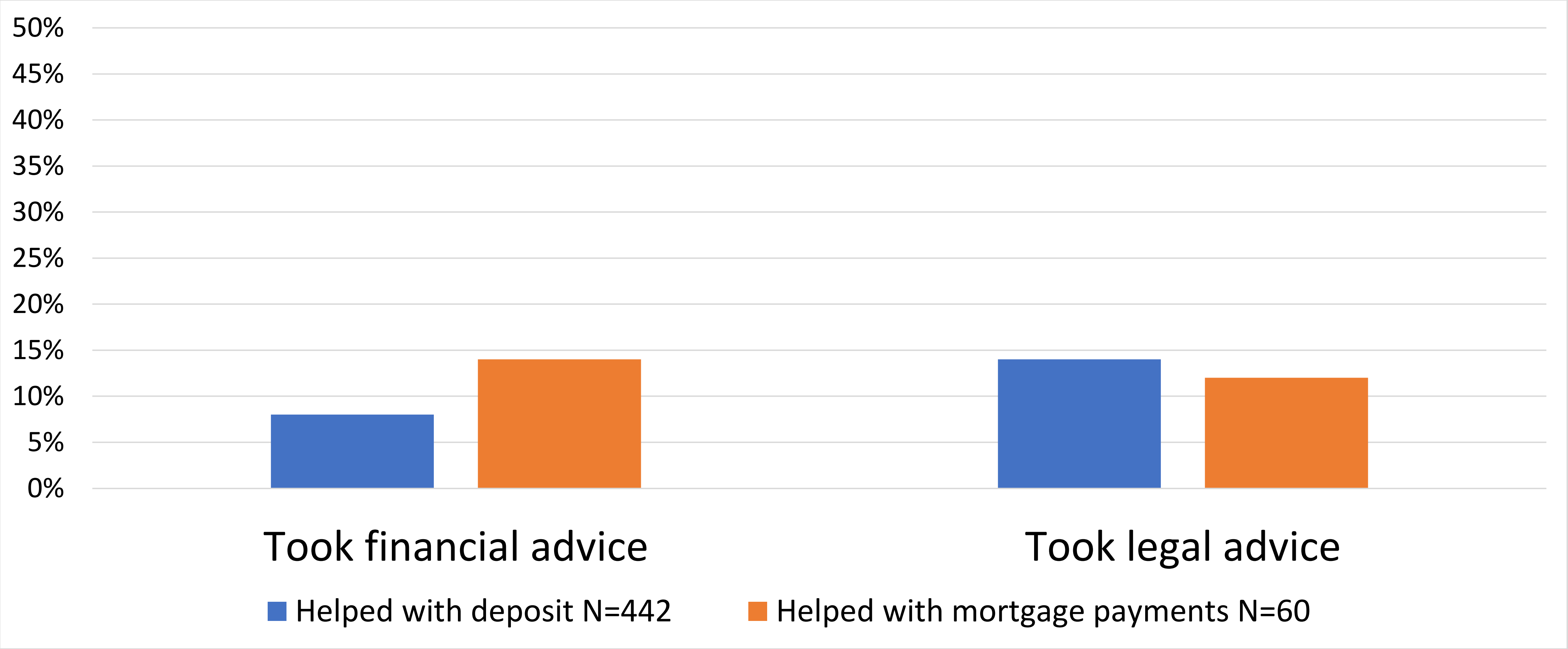
How help is given



Feelings about giving help



Whether families take advice



Helping children vs saving for own care

- Helping children financially can reduce funds available to pay for own care in later life.
- Some respondents said worry about poverty in old age made them reluctant to offer help.
- Concerns in particular when a number of children

Does BoMaD behave like a bank?

- Few take legal or financial advice
- Usually no written record of transactions
- Arrangements for repayment often not discussed
- ‘What ifs’ rarely addressed (in particular relationship breakdown, parental ill health)

Will BoMaD continue to expand?

- Those 50+ may be almost the last that can afford to give generous help
- Future generations less likely to accumulate housing wealth or pay off their own mortgages at the same rate
- Fewer will have final salary pensions
- ut many younger people with resources are buying additional properties

Wider social and economic effects

- Concerns expressed by policy makers and parents themselves
- BoMaD privileges those with well-off parents
- Danger of widening existing wealth and housing inequalities
- Regulatory arrangements are having to catch up with the growth of the market and may well not be fully adequate
- Most likely outcome is increasing divergence between haves and have nots

Conclusions

- At the moment doing well in much of Europe and to some extent the elderly are helping the young;
- There is a growing need for mortgage products for the elderly both to maintain existing mortgages and to enable equity release;
- While many older households have equity locked up in their home because of past inflation, this may be a one or two generation issue at least in terms of scale;
- In the meantime it is worsening intergenerational inequality and particularly increasing inequality among younger households;
- But the issues of adult social care in particular need to be addressed;
- Treasuries across the world see the opportunities.

LSE

References

- Dawd K (2019) ‘Asleep at the Wheel’, Impact Magazine January 2019, Durham University.
- Scanlon, K and Blanc, F (with Annie Edge and Christine Whitehead) (2018), The Bank of Mum and Dad, How it Really Works; Family Building Society.
- Scanlon, K, Blanc, F and (possibly) Whitehead, C (2019) Re-mortgaging in Later Life, Family Building Society